

Message Text

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ACTION NEA-07

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TO SECSTATE WASHDC 2170

C O N F I D E N T I A L NEW DELHI 4329

LIMDIS

E.O. 11652: GDS
TAGS: EGEN, IN
SUBJECT: INDIAN SPONGE IRON PROJECT

1. THE MARCH 26 INDIAN EXPRESS REPORTS THAT THE INVESTIGATION INVOLVING THE ARREST OF THREE OFFICIALS OF THE PLANNING COMMISSION AND THE PERSONAL SECRETARY TO THE FORMER FOREIGN MINISTER HAS ONLY UNCOVERED THE INVOLVEMENT OF ONE FOREIGN FIRM. BUT ACCORDING TO THE ARTICLE CIB SOURCES DID NOT RULE OUT THE POSSIBILITY OF MORE FOREIGN FIRMS HAVING BOUGHT INFORMATION.

2. WE UNDERSTAND THAT ONE OF THE PLANNING COMMISSION OFFICIALS INVOLVED WAS IN CHARGE OF THE REVIEW OF THE HYDERABAD SPONGE IRON PROJECT. TWO FIRMS ARE BIDDING TO SUPPLY THE TECHNOLOGY FOR THE PROJECT, ALLIS CHALMERS (US) AND LURGI (FRG). THE MINISTRY OF STEEL REVIEW DETERMINED THAT THE ALLIS CHALMERS TECHNOLOGY WAS MOST SUITABLE FOR THE PROJECT, AND IN DECEMBER THE UNDP CONFIRMED ITS CONTRIBUTION OF \$4.29 MILLION TO THE FINANCING ON THIS BASIS. ALLIS CHALMERS HIRED ADIL SHAHRYAR, SON ON MOHAMED YUNIS, AS ITS CONSULTANT AND HAS BEEN ASSISTED BY DAVID W. REANEY, AN AMERICAN CITIZEN AND UNIDO CONSULTANT TO THE PROJECT, WHO IS BASED IN HYDERABAD.

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3. IN JANUARY THE PROJECT PROPOSAL WENT TO THE PLANNING COMMISSION WHICH RAISED OBJECTIONS TO THE ALLIS CHALMERS TECHNOLOGY, PRINCIPALLY ON THE BASIS THAT IT WAS UNPROVEN. A FIRE AT A SUDBURY ONTARIO PLANT WHICH USED THE COMPANY'S TECHNOLOGY WAS ATTRIBUTED TO FAULTY TECHNOLOGY AND SEVERAL STORIES APPEARED IN THE LOCAL PRESS WHICH WERE CRITICAL OF ALLIS

CHALMERS. REANEY INFORMED US THAT IN HIS VIEW THE STORIES WERE PLANTED BY THE AMERICAN COMPANY'S COMPETITORA, LURGI, WHICH HAD PAID OFF THE PLANNING COMMISSION OFFICIAL IN AN ATTEMPT TO REVERSE THE MINISTRY'S DECISION FAVORING THE ALLIS CHALMERS TECHNOLOGY.

4. IN LATE FEBRUARY THE PLANNING COMMISSION OFFICIAL DEALING WITH THE CASE APPARENTLY WAS ARRESTED. PRESIOUVLY WE HAD CONTACTED HIM SEVERAL TIMES AND HAD RECEIVED INFORMATION ON THE STATUS OF THE SPONGE IRON PROJECT AND ON THE IRON AND STEEL INDUSTRY IN GENERAL IN CONNECTION WITH OUR MINERAL REPORTING RESPONSIBILITIES.

5. THE ALLIS CHALMERS OFFICIAL IN CHARGE OF THE PROPOSAL, ROBERT LEROY, HAS BEEN HERE SEVERAL TIMES IN THE LAST SIX MONTHS AND REANEY AND SHAHRYAR FREQUENTLY CALL AT THE EMBASSY TO INFORM US OF THE STATUS OF THE PROJECT. SHAHRYAR APPLIED FOR AND WAS GIVEN A VISA ON MARCH 24. AT THAT TIME, HE TOLD US HE WAS GOING TO THE US FOR TRAINING IN THE ALLIS CHALMERS TECHNOLOGY BUT THAT THE COMPANY DID NOT WANT HIM TO COME UNTIL THE SPONGE IRON CONTRACT WAS GIVEN FINAL APPROVAL BY THE GOI AND THE CONTRACT WAS OFFICIALLY AWARDED ALLIS CHALMERS. HE ASKED THAT WE ASCERTAIN THE STATUS OF THE CONTRACT FROM THE MINISTRY OF STEEL, A REQUEST TO WHICH WE MADE NO COMMITMENT.
SCHNEIDER

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